

## 1978 annual report



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**gregory industries limited**





## DIRECTORS' REPORT TO THE SHAREHOLDERS

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Record net earnings for the year ended December 31, 1978 were \$1,825,018 (\$1.83 per share) on record sales of \$24,733,715 compared with net earnings of \$323,131 (31¢ per share) on sales of \$15,117,954 for the previous year ended December 31, 1977.

An extraordinary gain of \$127,000 resulting from a reduction of deferred income taxes on application of prior years' losses raised final profit in the latest period to \$1,952,018 (\$1.96 per share). A similar extraordinary gain of \$322,997 raised profit in the previous year to \$646,128 (62¢ per share). Return on shareholders equity in 1978 was 52% compared to 28% in 1977.

The 1978 per share figures have been computed by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the year of 994,646 shares (net of the 323,000 shares held by the subsidiary) compared with 1,030,928 outstanding shares during 1977.

Cash flow from operations was \$2,600,163 in 1978 compared with \$877,108 in 1977. Working capital increased to \$2,430,940 at December 31, 1978 from \$773,399 at December 31, 1977.

All divisions were profitable including Paneling. The outstanding performance of the Company in 1978 reflected increased production and sales at each division combined with record lumber prices. The low value of the Canadian dollar against world currencies was a major factor in pushing our export prices to new highs. The Company was in an excellent position to capitalize on these market factors because of previous efforts to update and consolidate its existing operations. //

At a Shareholders' Special General Meeting in August 1978, the Company amended its Articles and Memorandum to bring them in line with the new B.C. Companies Act and approved the sale of Company shares and the granting of loans by the Company to the management group. These transactions give management a greater stake in the Company to enhance growth and prosperity.

The Company's first dividend of 5¢ per share was paid on September 1st, 1978. This was repeated on December 1, 1978 and March 1, 1979. The Board will review at the end of each quarter the Company's ability to maintain a quarterly dividend provided it will not jeopardize the strong working capital position needed to remain competitive in the forest industry.

The Yukon sawmill is still for sale with no immediate buyers in sight. Plans for a new sawmill in Anacortes, Washington are being held up pending completion of the feasibility report and financing.





On January 16, 1979, the Company purchased approximately 14 acres of land on River Road in Delta, B.C. This land is to be used for expansion of the Paneling Division subject to the completion of a satisfactory feasibility study and arranging of long-term financing.

The Company is currently investigating several avenues of growth and it is expected that at least one major expansion will be undertaken during 1979. The Company is negotiating with lenders to arrange long-term financing for any expansion.

The record results of 1978 could not have been accomplished without the contribution of each Company employee. They are to be congratulated for their efforts. As at December 31, 1978 the Company employed 262 people compared with 274 people at December 31, 1977. Wages, salaries and benefits paid to employees for 1978 totaled \$4,975,606 compared with the 1977 total of \$3,953,119.

The Company is projecting an increase in sales during 1979 mainly due to high prices. The first quarter of 1979 will be profitable and better than the comparable period in 1978. The demand for wood chips is growing as the pulp markets improve and the Company is selling its stock piles of chips in addition to all of its current production. The Company is projecting 55% of 1979 sales to overseas markets, mainly Japan and Europe, 30% to the U.S. and 15% to Canada. This sales diversification protects the Company against any drastic reduction in U.S. housing starts.

The outlook for 1979 earnings is good subject to a successful labour settlement in June and provided the U.S. housing market remains reasonably active.

Respectfully submitted on behalf of the Board,

Peter J. Gregory,  
Chairman

March, 1979



## gregory industries limited

### Consolidated Statement of Earnings and Earnings Reinvested in the Business Year ended December 31, 1978

	1978	1977
<b>Sales</b>	<b>\$24,733,715</b>	<b>15,117,954</b>
<b>Expenses and charges:</b>		
Cost of lumber sold	16,952,378	11,463,845
Selling and administration	4,104,186	2,451,994
Depreciation and amortization	261,982	243,860
Interest on long-term debt	129,603	97,305
Other interest, net	94,345	110,186
Gain on disposal of property, plant and equipment	(73,837)	(12,880)
	<u>21,468,657</u>	<u>14,354,310</u>
<b>Earnings before income taxes and extraordinary item</b>	<b>3,265,058</b>	<b>763,644</b>
<b>Income taxes:</b>		
Current	853,040	117,516
Deferred	587,000	322,997
	<u>1,440,040</u>	<u>440,513</u>
<b>Earnings before extraordinary item</b>	<b>1,825,018</b>	<b>323,131</b>
Deferred income tax reduction on application of prior years' losses	127,000	322,997
<b>Net earnings for the year (Note 9)</b>	<b>1,952,018</b>	<b>646,128</b>
Earnings reinvested in the business at beginning of year	1,832,924	1,186,796
	<u>3,784,942</u>	<u>1,832,924</u>
<b>Dividends paid</b>	<b>95,021</b>	<b>—</b>
<b>Earnings reinvested in the business at end of year (Note 7)</b>	<b>\$ 3,689,921</b>	<b>1,832,924</b>





**Consolidated Statement of Changes in Financial Position**  
**Year ended December 31, 1978**

	<u>1978</u>	<u>1977</u>
<b>Funds provided:</b>		
From current operations:		
Earnings before extraordinary item	<b>\$ 1,825,018</b>	323,131
Add items not involving funds	<u>775,145</u>	<u>553,977</u>
<b>Funds provided by current operations</b>	<b>2,600,163</b>	877,108
Long-term debt financing	958,324	80,941
Proceeds from disposal of property, plant and equipment	184,381	81,554
Issue of shares	<u>403,750</u>	—
<b>Total funds provided</b>	<u><b>4,146,618</b></u>	<u>1,039,603</u>
<b>Funds applied:</b>		
Dividends	95,021	—
Increase in investments and other assets	10,977	6,078
Purchase of property, plant and equipment	849,886	499,869
Reduction of long-term debt	354,920	205,057
Purchase of shares in Gregory Industries Limited	807,500	—
Loans to officers	<u>370,773</u>	—
<b>Total funds applied</b>	<u><b>2,489,077</b></u>	<u>711,004</u>
<b>Increase in working capital</b>	<b>1,657,541</b>	328,599
Working capital at beginning of year	<u>773,399</u>	<u>444,800</u>
<b>Working capital at end of year</b>	<u><b>\$ 2,430,940</b></u>	<u>773,399</u>



## gregory industries limited

### Consolidated Balance Sheet December 31, 1978

<b>Assets</b>	<b>1978</b>	<b>1977</b>
<b>Current assets:</b>		
Cash	\$ 11,548	13,536
Accounts receivable	2,556,168	1,674,674
Inventories (Note 2)	4,035,425	2,190,165
Prepaid expenses and deposits	400,863	252,133
Total current assets	7,004,004	4,130,508
<b>Investments and other assets, at cost</b>	<b>51,372</b>	<b>40,395</b>
<b>Loans to officers</b> (net of current portion of \$26,917)	<b>370,773</b>	—
<b>Property, plant and equipment</b> (Note 3)	<b>2,455,078</b>	<b>1,977,717</b>
	<b>\$ 9,881,227</b>	<b>6,148,620</b>

#### AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Gregory Industries Limited as at December 31, 1978 and the consolidated statements of earnings and earnings reinvested in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia, Canada  
March 12, 1979

*Leat, Marwick, Mitchell & Co.*  
Chartered Accountants



<b>Liabilities</b>	<b>1978</b>	<b>1977</b>
<b>Current liabilities:</b>		
Bank indebtedness (Note 4)	\$ 1,496,281	1,324,419
Accounts payable and accruals	1,962,457	1,779,202
Income and logging taxes payable	823,688	96,712
Long-term debt due within one year	290,638	156,776
Total current liabilities	4,573,064	3,357,109
<b>Long-term debt</b> (Note 5)	1,161,778	558,373
<b>Deferred income taxes</b>	460,000	—
<b>Shareholders' equity:</b>		
<b>Share capital</b> (Note 6):		
Common shares of no par value.		
Authorized 2,040,000 shares;		
issued 1,192,428 shares	803,964	400,214
<b>Earnings reinvested in the business</b>		
(Note 7)	3,689,921	1,832,924
	4,493,885	2,233,138
Less cost of shares held by subsidiary	(807,500)	—
<b>Net shareholders' equity</b>	3,686,385	2,233,138
	<u>\$ 9,881,227</u>	<u>6,148,620</u>

On behalf of the Board:

*Arthur J. Gregory*

Director

*M. J. Edwards*

Director

Commitments (Note 8)

See accompanying notes to consolidated financial statements





## gregory industries limited

### Notes to Consolidated Financial Statement

December 31, 1978

#### 1. Significant accounting policies:

##### *Principles of consolidation:*

The consolidated financial statements include the accounts of the company and its operating subsidiary, Gregory Manufacturing Limited and its non-operating subsidiary, Anacortes Lumber, Inc.

All material inter-company transactions have been eliminated.

##### *Inventories:*

Inventories are valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out (FIFO) basis.

##### *Depreciation:*

Depreciation on property, plant and equipment has been recorded on the straight-line method over their estimated useful lives using the following rates:

Buildings, yards and dock	5%
Mill and office equipment	10%
Automotive equipment and boom boats	20%

Additions and betterments are capitalized and expenditures for maintenance and repairs are charged to expense. When depreciable assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings.

##### *Income taxes:*

The company follows the tax allocation basis of accounting for income taxes. Taxes deferred to future years as a result of claiming for tax purposes amounts different from those recorded in the accounts are charged against current earnings and are recorded in the balance sheet as deferred income taxes.

#### 2. Inventories:

Inventories are classified as follows:

	1978	1977
Logs	\$1,594,458	872,080
Lumber	2,435,207	1,189,174
Chips and sawdust	5,760	128,911
	<u>\$4,035,425</u>	<u>2,190,165</u>

#### 3. Property, plant and equipment:

	1978	1977
At cost less depreciation and amortization:		
Buildings (including buildings on leased land)	\$ 838,494	685,980
Equipment	2,551,646	1,979,154
Leasehold improvements	44,122	44,122
	<u>3,434,262</u>	<u>2,709,256</u>
Less accumulated depreciation and amortization	<u>1,250,854</u>	<u>1,116,918</u>
	<u>2,183,408</u>	<u>1,592,338</u>
Land	184,048	220,379
	<u>2,367,456</u>	<u>1,812,717</u>
At estimated net realizable value:		
Buildings and equipment	87,622	165,000
Total property, plant and equipment	<u>\$2,455,078</u>	<u>1,977,717</u>

#### 4. Bank indebtedness:

The bank indebtedness is secured by an assignment of accounts receivable and a charge on inventories, together with a demand debenture giving a second fixed charge on all property, plant and equipment and a floating charge on all other assets.



<b>5. Long-term debt:</b>	<b>1978</b>	<b>1977</b>
Loan agreements at interest rates varying from 10.1% to 14½%, repayable in monthly instalments and maturing at various dates to 1988; secured by debentures giving a fixed charge on specified property, plant and equipment and a floating charge on other assets	<b>\$1,398,441</b>	687,451
Other indebtedness and conditional sales contracts, repayable in monthly instalments, secured by charges on certain equipment	<b>53,975</b>	27,698
	<b>1,452,416</b>	715,149
Less amounts due within one year	<b>290,638</b>	156,776
	<b>\$1,161,778</b>	558,373

Maturities of long-term debt are as follows:

1979	\$290,638
1980	277,792
1981	220,060
1982	185,000
1983 and later	478,926

**6. Share capital:**

During the year the subsidiary, Gregory Manufacturing Limited, purchased 323,000 shares of the company for \$807,500. The company then issued 161,500 shares to certain officers for \$403,750. The outstanding shares, net of 323,000 shares held by a subsidiary, at December 31, 1978 were 869,428.

**7. Restrictions on cash dividends:**

Under the terms of the bank debenture (Note 4), the company is restricted from payment of dividends, unless permission of the bank is obtained.

**8. Commitments:**

The company and its subsidiaries are obligated under long-term lease agreements for aggregate basic annual rentals of approximately:

1979	\$116,000
1980	70,700
1981	24,000
1982	12,500

**9. Earnings per common share:**

The per share figures have been computed by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding of 994,646 shares (1977 — 1,030,928), net of the 323,000 shares held by the subsidiary.

	<b>1978</b>	<b>1977</b>
Earnings before extraordinary item	<b>\$1.83</b>	.31
Extraordinary item	<b>.13</b>	.31
Earnings for year	<b>\$1.96</b>	.62

**10. Statutory information:**

The remuneration of directors and senior officers, as defined by the British Columbia Companies Act, amounted to \$306,205 (1977 — \$248,784).

**11. Subsequent event:**

On January 16, 1979 the company completed the purchase of land for the sum of \$535,000.





## gregory industries limited

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### **Directors:**

WILLIAM E. DONNELLY\*, *Vice-President, Versatile Cornat Corporation*  
W. GRANT GERRARD\*, *Secretary-Treasurer, Gregory Industries Limited*  
PETER J. GREGORY, *Chairman of the Board, Gregory Industries Limited*  
C. RANN MATTHISON\*, *Consultant*  
GEORGE L. MALPASS, *President, Gregory Industries Limited*  
JOHN P. SULLIVAN, *Mill Manager, Acorn Forest Products Division*

\* Member of Audit Committee

### **Officers:**

PETER J. GREGORY, *Chairman of the Board and Chief Executive Officer*  
GEORGE L. MALPASS, *President and Chief Operating Officer*  
W. GRANT GERRARD, *Secretary-Treasurer and Chief Financial Officer*  
PAUL D. RIVERS, *Comptroller*

### **Registrar and Transfer Agent:**

THE CANADA TRUST COMPANY, *Vancouver, B.C.*

### **Shares Listed:**

VANCOUVER STOCK EXCHANGE

### **Banker:**

THE ROYAL BANK OF CANADA

### **Solicitors:**

McTAGGART, ELLIS & COMPANY, *Vancouver, B.C.*

### **Auditors:**

PEAT, MARWICK, MITCHELL & CO., *Vancouver, B.C.*

### **Head Office:**

1283 - 595 Burrard Street,  
P.O. Box 49172, Bentall Centre,  
Vancouver, B.C. V7X 1K8  
Tel. (604) 687-9651

### **Registered Office:**

St. 800 - 885 Dunsmuir Street,  
Vancouver, B.C. V6C 1P2

### **Wholly Owned Subsidiary Companies:**

GREGORY MANUFACTURING LIMITED —

ACORN FOREST PRODUCTS DIVISION,  
Delta, B.C.  
FIELD SAWMILLS DIVISION,  
Courtenay, B.C.  
PANELING DIVISION,  
Burnaby, B.C.

ANACORTES LUMBER INC., Anacortes, Washington, U.S.A.







